



NEWSLETTER

MISSOURI DIVISION OF CREDIT UNIONS

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Missouri Division of Credit Unions

Department of Economic Development

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CALL REPORTS

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MERGER RULE

The Division is in the process of developing a proposed regulation for mergers of state-chartered credit unions. Currently, we have a statute regarding the mergers of credit unions. Our new proposed regulation will go into greater detail of what is required and expected for a credit union entering into a merger agreement.

Along with the proposed regulation, we will develop a manual to serve as a guide in the event of merger.

Any input from the industry is welcome and appreciated and may be sent to the Jefferson City office.

BANK SECRECY ACT

You have undoubtedly received a large amount of correspondence regarding the Bank Secrecy Act (BSA) and the increased attention it is receiving. In June of 2005, the Division distributed Bulletin 2005 CU-02 regarding BSA compliance. In recent months, the National Credit Union Administration (NCUA), the Missouri Credit Union Association (MCUA), and the Federal Financial Institutions Examination Council (FFIEC), to name a few, have also disseminated various documents pertaining to the increased focus on BSA.

Along with this increased importance has come increased scrutiny of credit unions' systems and procedures for complying with the BSA. In the past, examinations of BSA compliance may have consisted of merely a review of policies and procedures and perhaps a sample of recently filed Currency Transaction Reports (CTR) and Suspicious Activity Reports (SAR). You can expect that your next examination will include increased examination procedures regarding BSA.

In addition to reviewing procedures, examiners will expect to see items such as the following:

- reports used to determine if any transactions must be reported on CTRs
- reports used to determine if any activity is suspicious and reportable on an SAR
- wire transfer logs/lists that can be used to verify the retention of all required information
- copies of documents used to identify members
- documents that will allow examiners to trace transactions from member statements back to source documents
- lists of purchases of monetary instruments that can be used to verify the retention of all required Information for purchased of between \$3,000 and \$10,000 in cash

This list is not intended to be all-inclusive, rather to provide examples of some information that may be examined. There may be additional information that examiners will review, dependent on the complexity of the credit union, the level of BSA risk, and the overall compliance program. The Division expects that a credit union's BSA compliance program will be commensurate with the level of the risk in the credit union. Therefore, one of your most important tasks is to identify your BSA risks and be prepared to brief your examiner on them.



In June, 2005, the FFIEC released a BSA/AML Examination Manual that provides great detail regarding BSA examination procedures. Appendix J of the manual provides an excellent example of a BSA risk assessment. In reviewing this example, you may conclude that many credit unions could be considered low risk in many ways. Likewise, the level of sophistication needed to comply with BSA will be less. For example, a small single-sponsor credit union with one office and a fairly stable membership base may well be able to ensure proper CTR filing without specialized reports. This is simply because the entire staff is sitting right in the main office area and everyone knows what transactions are occurring. If a person either brought in, or requested a withdrawal, of more than \$10,000 in cash, all staff would be aware. Conversely, a large credit union with many branches will have to generate reports and designate a person to monitor those daily to ensure a member does not make several deposits or withdrawals in different branches during the day that add up to more than \$10,000.

Credit unions are encouraged to develop a risk assessment similar to that in Appendix J of the FFIEC BSA/AML Examination Manual. Although a documented risk assessment is not a regulatory requirement, without one it will be more difficult to discuss your credit union's risk and assure your examiner that you are managing according to that risk. If there is no documented risk assessment and examiners make their own, there may be more likelihood of disagreements regarding level of risk.

Due to the increased scrutiny, and the potential for significant monetary penalties for BSA violations, credit union officials must ensure their credit union is in full compliance with BSA requirements. There is a great deal of reference information available to you to ensure you are fully compliant with BSA. This includes correspondence from the Division, NCUA and MCUA as well as the FFIEC BSA/AML Examination Manual (available on the FinCEN website).

The following websites provide further guidance:

Missouri Division of Credit Unions— www.cu.ded.mo.gov/

National Credit Union Administration— www.ncua.gov/

Financial Crimes Enforcement Network— www.fincen.gov

Missouri Credit Union Association— www.mcua.org

CUNA Compliance— www.cuna.org/compliance

As always, you may contact your examiner or this office with questions, or for more information.

MOSAFE

Financial exploitation of the elderly and disabled costs millions of dollars nationwide and destroys thousands of Missouri lives. The Missouri Department of Health and Senior Services (DHSS) has joined forces with other public and private agencies to combat this crime.

Financial exploitation may occur in a credit union when a vulnerable adult comes in to cash a check or withdraw money. Vulnerable adults are 60 years of age or older and disabled and between 18 and 59. Credit union employees are often the first to realize financial exploitation is occurring. If they know how to spot the warning signs and respond, they can help protect their vulnerable members. Employees are the first line of defense against the crime.

Credit unions are encouraged to:

- ◊ Train employees to identify the warning signs of financial exploitation;
- ◊ Report suspected financial exploitation to DHSS and law enforcement, as appropriate;
- ◊ Cooperate with investigations conducted by DHSS and law enforcement; and;
- ◊ Prevent exploitation by helping vulnerable adults accomplish their financial transactions and goals in the safest manner possible.
- ◊ A financial exploitation training kit that includes a video, CD, DVD, brochure, PowerPoint Presentation and resource manual will be distributed by the Division to credit unions soon. It is part of MOSAFE—Missourians Stopping Adult Financial Exploitation, launched by DHSS.

To report suspected financial exploitation, call DHSS' Elder Abuse and Neglect Hotline at 1-800-392-2010.



BYLAW AMENDMENTS

A common question the Division receives is regarding what bylaw articles need approval of the entire membership versus those that only need board approval. The following by-laws require membership approval:

All of Article 4, Qualifications for Membership as required by RsMo (Statute) 370.170 (4).

Article 7, Sections 1 and 2, to provide for Mail Balloting as required by RsMo 370.170 (3).

Article 11, Section 11.1, for the Appointment or Elimination of the Credit Committee as required by RsMo 370.170(4) and 370.180(2).

Article 12, Section 12.1, for the Appointment or Election of Supervisory Committee as required by RsMo 370.170(4) and 370.180(1).

Other changes to the bylaws may be adopted by the Board of Directors, assuming the change is reasonable in nature and not contrary to the statutes.

STATE UNEMPLOYMENT RATE HITS FOUR YEAR LOW

The Missouri Department of Economic Development recently reported that Missouri's seasonally-adjusted unemployment rate in August 2005 dropped a full point from July to 4.6 percent, while 15,500 new jobs were created in August.

The current unemployment rate is the lowest since August 2001, the last month before the 9/11 terrorist attacks, which combined with recessionary increases already underway drove unemployment sharply higher.

"The state's labor market conditions have shown consistent improvements since January and these latest employment numbers indicate an economic resurgence that hasn't been seen in Missouri for years," Gov. Matt Blunt said. "While there are always obstacles to economic growth and there is certainly more work to be done, we are having success creating jobs and expanding economic opportunities for hard-working Missourians and their families."



CREDIT UNION INVESTMENTS

The Division has been receiving questions lately as to the following:

Q: Can natural-person credit unions issue and purchase certificates of deposit to and from other natural-person credit unions?

A: Credit unions can issue and purchase certificates to and from other credit unions. For example, ABC Credit Union, the issuing credit union, has a certificate program. XYZ Credit Union has excess liquidity it desires to deposit. XYZ Credit Union can purchase a certificate from ABC Credit Union.

Q: Are these deposits insured by the NCUA?

A: The purchasing credit union's deposit is insured up to \$100,000 by the NCUA in the same manner that all members' accounts are.

Q: Does the issuing credit union have to have credit unions in their field of membership?

A: The issuing credit union does not need to have "credit unions" in their field of membership nor does the purchasing credit union need to be a member of the issuing credit union. The issuing credit union would show the deposit as an insured non-member deposit on the share schedule for call reporting purposes.

FINANCIAL TRENDS

Financial trends for the first half of 2005 show that Missouri state-chartered credit unions continue to collectively operate in a safe and sound manner. Among the highlights noted on the June 30, 2005 call reports for the period of January 1 to June 30, 2005:

- ◊ Assets increased \$205 million, or 2.7%. Annualize this equates to 5.44%
- ◊ Net worth increased from 11.02% to 11.08%

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Our *vision* is to foster an environment which ensures the availability of high quality financial products and services while preserving the integrity and safety of the credit union industry.

The Division of Credit Unions' *mission* is to effectively and efficiently supervise Missouri state chartered credit unions, to ensure compliance with applicable laws and safe and sound operations while remaining responsive to the changes in the economic, technological and political climates which may impact credit unions.

The mission will be accomplished by the following actions:

- Stimulate and contribute to an environment which allows credit unions to evolve and remain competitive;
- Ensure compliance with applicable laws which provide for fair and equitable treatment of all consumers;
- Encourage outstanding performance by division staff members by providing up to date equipment, training and education enhancement opportunities;
- Communicate to our customers our desire and willingness to offer a quality product;
- Develop an internal culture of quality which measures and promotes customer satisfaction;
- Encourage the education and fostering of financial awareness and responsibility among the members of Missouri credit unions.

These goals will be accomplished through focusing on our customers needs, facilitating open channels of communication and commitment to continuous improvement.